

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON ILEMBE DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the iLembe District Municipality set out on pages xx to xx, which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the ILembe District Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses and impairment

8. As disclosed in note 35.8 to the financial statements, material water distribution losses of R34,88 million (11,19 million kilolitres) were incurred as a result of illegal connections, ageing infrastructure, reservoir overflows and service leaks.
9. As disclosed in note 35.7.2 to the financial statements, council has incurred material debt impairment losses of R21.83 million written off against the provision for bad debts. This is mainly as a result of restricted inactive accounts that are accumulating interest with no corresponding payments, pensioner accounts and deceased consumer accounts that are accumulating interest. This write-off has resulted in a decrease in consumer debtors and provision for bad debts.
10. As disclosed in note 35.7.1 to the financial statements, Council has incurred material infrastructure asset impairment losses of R299.74 million in the current year due to significant decrease in the remaining useful lives and recoverable amounts of these assets. This has resulted in the municipality realising an overall deficit in the current year.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Basic service delivery and infrastructure on pages x to x

16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matters

20. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below.

Achievement of planned targets

21. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

22. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

24. I considered internal control relevant to our audit of the financial statements, the annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

Investigations

Investigations in progress

25. Provincial Internal Audit Services performed an investigation on allegations of irregularities on a Security Tender Process. The investigation commenced in January 2013 and was finalised. Another, investigation on allegations of fraudulent issuing of clearance certificates, under the letter heads of the municipality, to conveyors. The investigation commenced in July 2011 and is still in progress. Furthermore, Provincial Internal Audit Services performed an investigation on allegations of fraud and corruption against senior officials. The investigation commenced in July 2012 and is still in progress.

Investigations completed during the financial year

26. Provincial Internal Audit Services performed an investigation on allegations of irregularities related to the 2011 SALGA games. The investigation commenced in August 2012 and was finalised in August 2013. Provincial Internal Audit Services completed another investigation on allegations of fraud and corruption within procurement and payments (Supply of water reservoir). The investigation commenced in August 2012 and was finalised in August 2013.

Auditor-General

Pietermaritzburg

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence